

**Mid-term Review of Monetary and Credit Policy for the year
2003- 04 – Unhedged Foreign Currency Exposures of Corporates**

DBOD. BP.BC. 51 / 21.04.103/ 2003- 2004

5 December 2003

All Scheduled Commercial Banks
(Excluding RRBs & LABs)

Dear Sir,

**Mid-term Review of Monetary and Credit Policy for the year
2003- 04 – Unhedged Foreign Currency Exposures of Corporates**

Please refer to our Circular No. DBOD. BP. BC. 37/ 21.04.103/ 2001- 2002 dated October 27, 2001, wherein it was advised that banks which have large exposures to corporates should monitor and review on a monthly basis, through a suitable reporting system, the unhedged portion of the foreign currency exposures of those corporates, whose total foreign currency exposure is relatively large (say, about US \$ 25 million or its equivalent).

2. In this connection, please refer to paragraph 65 of the Statement on “ Mid-term Review of Monetary and Credit Policy for the year 2003- 2004” enclosed to the Governor’s letter No. MPD. BC. 241/ 07.01.279/ 2003- 2004 dated November 3, 2003. It is noticed that despite RBI’s exhortations, hedging has not been ensured. This may entail significant but avoidable risks to some corporate balance sheets, possibly impacting the quality of banks’ assets in some cases.

3. In view of this, it has been decided that, henceforth, foreign currency loans above US \$ 10 million, or such lower limits as may be deemed appropriate vis-à-vis the banks’ portfolios of such exposures, can be extended by banks only on the basis of a well laid out policy of their Boards with regard to hedging of such foreign currency loans.

4. Banks are further advised that the policy for hedging, to be framed by their boards, may consider, as appropriate for convenience, excluding the following :

- Where forex loans are extended to finance exports, banks may not insist on hedging but assure themselves that such customers have uncovered receivables to cover the loan amount.
- Where the forex loans are extended for meeting forex expenditure.

5. It may please be noted that the intention of the above approach is to ensure a policy by each bank that explicitly recognises and takes account of risks arising out of forex exposures of their clients.

Yours faithfully,

(C. R. Muralidharan)
Chief General Manager-in-Charge